

THIRTY FIVE CENTS

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MONTHLY REVIEW

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VOL. 1

REVIEW OF THE MONTH

THE DEVALUATION OF THE POUND—Paul M. Sweezy

NOTES ON A DIVIDED GERMANY—Max Werner

WHY I BELIEVE IN SOCIALISM—Henry Pratt Fairchild

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NOTES FROM THE EDITORS

We have received so many earnest requests for reprints of Professor Einstein's article on "Why Socialism?" in the May issue of MR that we have decided to make it available in 8-page pamphlet form at a price which just covers cost:

5c a copy — 6 for 25c — 15 for 50c — 35 for \$1.00

In this period when so many people are striving to attain what Professor Einstein calls an "inner equilibrium," when human beings "feel insecure, lonely, and deprived of the naive, simple, and unsophisticated enjoyment of life," this warm, human declaration for socialism by the world's most famous scientist should be read by millions. You can, without half trying, think of many people for whom it is *must* reading. Please send in your orders—along with cash, check, or money order—as soon as possible.

In the September issue we announced the first of a series of combination book-and-subscription offers—Leo Huberman's *We, the People* (publication price \$3.75) and a one-year sub to MR for \$4.00. We are going to

continued on inside back cover

THE SOVIET BOMB

American foreign policy since the war has been based on two assumptions, one political and one military. The political assumption is that war between this country and the Soviet Union must come sooner or later. The military assumption is that the United States, by the use of atom bombs, will be able to knock the Soviet Union out, while this country remains relatively uninjured by Soviet retaliation.

The achievement of the atom bomb by the Soviet Union completely destroys the military assumption. Of the two countries, the United States, because of its larger cities and more concentrated industry, is more vulnerable to atomic attack than the Soviet Union. This is a standing advantage, while the American lead in the atom bomb field is strictly temporary. In the long run, therefore, Russia's acquisition of the bomb means not only that the American monopoly is a thing of the past but that the United States is more likely than the Soviet Union to be knocked out in an atomic war.

There are two possible ways to meet this situation. One is a preventive war, based on the assumption or hope that the Soviet Union still has not enough bombs for effective retaliation. This has been proposed by certain extreme right-wingers. It is, however, opposed by responsible representatives of the capitalist class, even by those who would like nothing better than to see the Soviet Union wiped out. The reason is simply that the international political cost of such an act of aggression would be greater than any conceivable military advantage.

The other way to meet the situation created by the Soviet atom bomb is frankly to abandon the assumption that war is inevitable and to reconstruct American policy on the assumption that peaceful co-existence of different social systems is both possible and necessary.

So far the formulators and leaders of American policy have shown no signs of adopting this second course. Their reaction to the Soviet bomb has been: "We expected it all the time, and all we need to do is more of what we've been doing."

If this course is persisted in, the "inevitable" war will come; and the United States will lose. The Soviet Union may lose too, but that will be scant comfort to any one in this country.

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These are the basic facts of the present international situation. They are, as such things go, simple, difficult to confuse, and readily accessible to every one. As they sink into the consciousness of the American people, it seems reasonable to hope that a more rational and realistic attitude toward world affairs will develop. Eventually, there may emerge a new American foreign policy which assumes the inevitability of peace instead of the inevitability of war.

From a long-run point of view, therefore, we feel safe in saying that the fact of Soviet possession of the bomb (together with worldwide knowledge of that fact) is a powerful force for peace.

From a short-run point of view, however, the Soviet bomb is likely to have certain unpleasant and injurious repercussions in the United States. Evidence is not lacking that it will be made the pretext for early and substantial stepping-up of the rate of military spending in this country. The militarists, of course, are always on the lookout for such pretexts, and they will doubtless have powerful allies among the capitalists. There has been a slight economic upturn in recent months, but the recession is still here and it may take a turn for the worse at almost any time (quite apart from the effect of the coal and steel strikes). Demand for automobiles has probably already passed the peak, and present indications are that private investment in plant and equipment is falling off and will continue to do so in the foreseeable future. Moreover, as is pointed out in an article in this issue, the devaluation of the pound can be expected to have a deflationary effect in the United States. All told, the economy is in shaky condition and the outlook uncertain. It is in just such a situation as this that a new dose of military spending would be heartily welcomed as a "way out" by large sections of the capitalist class.

But this is nothing but the old "way out" that leads nowhere. Increased military spending will not add a particle to the security of the American people. The most it can accomplish is to keep the problem of American capitalism's surplus production down to manageable proportions for a while longer.

Meanwhile, saving capitalism by throwing more and more billions of dollars worth of goods and services down the rathole of military waste is getting to be a terribly expensive business for the American people. Sooner or later they will find out that they are buying a very poor bargain.

THE COMMUNIST TRIAL

The verdict of guilty in the trial of the Communist leaders was not exactly a surprise. Judge Medina made clear from the beginning

which side he was on, and in the present temper of the country it would be little short of a miracle if a jury could be found to acquit avowed Communists charged with a political offense—regardless of the exact terms of the indictment or the nature of the evidence presented.

It was also no surprise that Medina wound up the trial by punishing the unsuccessful defense lawyers for contempt—an action which he had threatened on numerous occasions during the trial. Nevertheless, the unprecedented severity of the sentences meted out, ranging up to six months in jail for two of the lawyers, can only be described as a shocking display of judicial vindictiveness. If this precedent is allowed to stand, the legal profession will be effectively put on notice that defending radicals is a dangerous business. It would be hard to imagine a more insidious device for undermining the right to a fair trial, that basic right without which all other rights can easily be turned into a sham.

The convicted Communists will, of course, appeal to the higher courts where the key question will be the constitutionality of the Smith Act, that legal monstrosity which makes it a crime to *teach* or *conspire to teach* "the duty, necessity, desirability, or propriety" of overthrowing the government by force and violence. If the Supreme Court were constituted as it was when the case came to trial ten months ago, we would guess that there was a good chance of the Smith Act's being declared unconstitutional. But since then, Justices Murphy and Rutledge have died, and Truman's appointments have pushed the Court sharply to the right. With things as they now stand, the prospect is, to say the least, not encouraging.

Let those who hate Communists so intensely that they would applaud a Supreme Court verdict upholding the Smith Act give a moment's thought to the consequences. In their blind fury against Reds they are oblivious to the fact that the principles on which this country was founded would be destroyed.

No one but idiots and comic-book anarchists, with whiskers a mile long and bombs under both coattails, preaches violent overthrow of government as a matter of principle. But the right to revolt and overthrow a specific government under particular historical circumstances is an entirely different matter. The United States was born in revolution — the forceful overthrow of the government which ruled the American colonies in the name of the British Crown. It was the Founding Fathers, not the leaders of the Communist Party, who proclaimed in the Declaration of Independence, "... whenever any form of government becomes destructive of these ends, it is the right of the People to alter or abolish it, and to institute new Government . . ."

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Nor would that other foundation stone of the nation, the Constitution of the United States, be left intact if the Smith Act should be upheld. The Smith Act makes it a crime to *teach* the desirability of destroying the government by force or violence, or the *printing, publishing or circulating* of matter toward that end. How can that possibly be squared with the First Amendment which states that "Congress shall make no law . . . abridging the freedom of speech or of the press . . .?"

It is true that Marx and Engels preached the necessity for revolution in the *Communist Manifesto*, published in February 1848. But let us not forget that on January 12, 1848, a few weeks *before* the *Manifesto* was published, a great American rose in the House of Representatives and spoke some telling words on the right of the people to revolt:

Any people anywhere, being inclined and having the power, have the right to rise up and shake off the existing government, and form a new one that suits them better. This is a most valuable, a most sacred right—a right which we hope and believe is to liberate the world. Nor is this right confined to cases in which the whole people of an existing government may choose to exercise it . . . A majority of an existing government may revolutionize, putting down a minority, intermingled or near them, who may oppose this movement. Such minority was precisely the case of the Tories of our own revolution. It is a quality of revolution not to go by old lines or old laws, but to break up both and make new ones.

The man who preached this doctrine of the right to revolt a century ago was not clapped into jail by the people of his country. He was sent to the White House. His name was Abraham Lincoln.

The Government boasts that it won a great legal "victory" in the trial of the Communist leaders. But who were the real losers—the Communists, or the American people?

The Communist leaders may go to jail, and the functioning of the Communist Party will, of course, be disrupted. But the Party will continue its work—underground if necessary. Its influence may not be seriously impaired and may even be enhanced. Even their bitterest enemies are forced to admit that the Communists are dedicated men and women—tough and courageous—and they will carry on no matter how many of them may be thrown in jail.

The effect on others, however, will be quite different. This verdict will help the American ruling class to fasten on them a regime of thought-control, fear, and regimentation. If you can be jailed for conspiring to teach (and, of course, for teaching) the doctrines of Marx,

Engels, and Lenin, then surely it is safer not to have anything to do with these doctrines. But Marx and Engels and Lenin were among the great humanitarian and progressive thinkers of modern times (a verdict of history which no judge or jury can reverse), and for that reason it will also be safer not to have anything to do with humanitarian or progressive ideas—or at least not to admit publicly to such intellectual aberrations. We fear that this kind of reasoning will now lead more and more people to keep their doubts and criticisms to themselves and to accept, however unenthusiastically, a society which is increasingly coming under the political and cultural domination of multi-billion-dollar reaction and pseudo-religious obscurantism.

The verdict in the Communist trial is a clear warning signal. The present whipped-up hysteria against the Communists serves to divert the attention of the American people from the real source of danger. Not communism but a slow, creeping form of fascism, the vilest scourge known to the human race—there is the real enemy.

(October 15, 1949)



You see, my kind of loyalty was loyalty to one's country, not to its institutions or its officeholders. The country is the real thing, the substantial thing, the eternal thing; it is the thing to watch over, and care for, and be loyal to; institutions are extraneous, they are its mere clothing, and clothing can wear out, become ragged, cease to be comfortable, cease to protect the body from winter, disease and death. To be loyal to rags, to shout for rags, to worship rags, to die for rags—that is a loyalty of unreason, it is pure animal. I was from Connecticut, whose Constitution declares "that all political power is inherent in the people, and all free governments are founded on their authority and instituted for their benefit; and that they have at all times an undeniable and indefeasible right to alter their form of government in such a manner as they may think expedient." Under that gospel, the citizen who thinks he sees that the commonwealth's political clothes are worn out, and yet holds his peace and does not agitate for a new suit, is disloyal; he is a traitor. That he may be the only one who thinks he sees this decay, does not excuse him; it is his duty to agitate anyway, and it is the duty of the others to vote him down if they do not see the matter as he does.

Mark Twain—*A Connecticut Yankee in King Arthur's Court.*

THE DEVALUATION OF THE POUND

BY PAUL M. SWEETZ

The much-publicized American-British-Canadian conference of early September produced very little but a complacent communique. If ever the mountain labored and brought forth a mouse, this was the occasion. One could not but be astonished that serious matters like the present British crisis could be treated in such a trivial way. And then, a week later, the explanation suddenly appeared: Sir Stafford Cripps, who for months had been pictured as an unyielding opponent of sterling devaluation, announced that the pound had been marked down by the large proportion of nearly one third (from \$4.03 to \$2.80). Here, then, was the remedy for the British crisis, a remedy apparently so sure and powerful that nothing else of importance need be undertaken.

Needless to say, the devaluation of the pound is an extremely important event; it may even prove to be a turning point in the development of the post-war world. We must analyse it as carefully and objectively as we can. At the same time, however, we should not underestimate the complexity of the problem, nor should we overestimate the extent and accuracy of our information. When more than two dozen currencies are devalued, the number of variables set in motion is astronomical. And when insiders have every reason to keep quiet, outsiders are often left to guess as best they can.

The essence of the British crisis is a shortage of dollars which is, in the first instance, attributable to three distinct causes: first, British purchases of goods and services from dollar countries have been running at a higher rate than the sum of British sales to those countries plus American and Canadian dollar subsidies; second, as banker to the Sterling area (the United Kingdom, the dominions except Canada, the colonies, and a few other countries), Britain has had to dip into her gold and dollar reserve to help meet the dollar deficit of the rest of the countries in the area; and third, there has been a large, and in recent months increasing, illegal flight of capital from sterling into dollars. For all these reasons, Britain's gold and dollar reserve has been steadily dwindling. If this trend continued unchecked, the reserve would be exhausted sometime during 1950, and Britain would be literally faced with international bankruptcy. The consequence could only be a sharp and immediate curtailment of purchases from abroad, which in turn would mean unemployment and lower standards of living. The problem for Britain, therefore, is to expand the inflow of dollars

and/or to check the outflow of dollars. Let us see how and to what extent the devaluation of the pound can be expected to help solve this problem.

First, what will the effect be on the relation between Britain's own dollar earnings and dollar expenditures? The dollar price of British goods will, of course, fall; and the sterling price of American goods will rise. (Neither change will, for a variety of reasons, be fully in proportion to the change in the dollar-pound exchange rate. For this reason, the use of exact percentages in reasoning about prices on the one hand and imports and exports on the other is likely to be more misleading than helpful.) It can be taken for granted that at lower prices *some* more British goods will be sold in dollar markets, but the big question is whether *enough* more will be sold to outweigh the lower revenue from each unit sold and hence to bring in a larger total number of dollars.

Cripps, in his speech announcing devaluation, seemed to take it for granted that this will be the effect. But a moment's consideration suggests that this is a very doubtful assumption. Aside from a few well-established specialties (mostly in the luxury-goods class — Scotch whiskey is a standard example), imports from Britain are distinctly marginal to the American economy, and their volume would seem to depend much more on economic conditions in this country than on any feasible price changes. The British, indeed, have evidence of this which is all too recent and convincing. One of the strongest factors in bringing on their dollar crisis at just this time has been the American recession which led to an immediate and drastic cut in American buying of British goods. But unfortunately there is no comparable evidence that American buying of British goods fluctuates closely with their prices. In the language of technical economics, the income-elasticity of American demand for British goods tends to be high, while the price-elasticity tends to be low. Nor is this all. There have been some goods which have been in short supply in this country since the war (for example, automobiles), and in such cases the demand for imports has been abnormally high; but these exceptional opportunities for foreigners to sell in the American market will dwindle off, regardless of the prices they charge, as the United States returns to "normalcy" (perhaps best defined as a state of chronic surpluses). The British are likely to suffer from this as much as any one, and devaluation can do very little to prevent it.

However you look at the problem of British exports to America, you can only conclude that the assumption that devaluation will lead to greater total dollar receipts is based on nothing more substantial than wishful thinking.

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What about the effect of devaluation on Britain's spending of dollars for American goods? If the British economy were completely uncontrolled, it would be safe to say that the higher sterling prices for American goods would result in their being imported into Britain in smaller quantities; and since the dollar prices are not affected (at least not directly) by devaluation, the result would be a reduction in Britain's total dollar outlays. But, of course, the British economy is in fact subject to numerous controls, and these controls are especially strong and effective in the field of imports. Britain has presumably cut imports from America to what was considered the practicable minimum. It is difficult to see how devaluation can have any effect on this minimum; and surely if it was decided that imports had to be cut still further, there was no need to go through the elaborate process of devaluation.

We cannot resist the conclusion that under present circumstances devaluation is most unlikely to improve Britain's dollar-earning capacity or to reduce her dollar-spending requirements. In this connection it would be more reasonable, we think, to assume that the net effect of devaluation on Britain's dollar position will be adverse rather than favorable.

Let us now turn to the question of the effect of devaluation on the rest of the sterling area's contribution to, and requirements from, the British dollar pool. Here it must be remembered that by far the most important exports to America are raw materials such as Malayan tin and rubber, African cocoa, and Australian wool. In the case of these commodities, what has already been said about British exports to the United States holds, only more so: American demand depends very much on the state of the American economy and only to a minor degree on price. The countries concerned will probably do their best, by price-fixing schemes of one sort or another, to keep devaluation from lowering the dollar price. But they are not likely to be altogether successful, and it is probable that their total dollar earnings will suffer some decline. On the other hand, the rise in sterling prices for imports from America is likely to cut down buying of such goods to a greater extent than in Britain, since most of the sterling area countries have less effective controls than the British do. On balance, it is probably safe to assume that the net dollar contribution or drain attributable to the sterling area outside Britain will not be greatly affected by devaluation. It follows that Britain can hardly expect much help from this source.

We have next to consider the problem of illegal capital flows. This problem was very much in Cripps' mind when he made his speech on devaluation, and it seems probable that it was the major considera-

tion behind the decision of the British government. This whole problem has certain special aspects to which we shall return later. For the moment, it will be enough to point out that, insofar as the illegal flight from the pound was based on speculation that the pound would be devalued, actual devaluation, especially by as large an amount as 30 percent, should serve effectively to check the drain. In this respect, then, devaluation may well achieve its goal, though it should not be forgotten that the flight from the pound was no more than an aggravation of the basic situation and that stopping it can make no positive contribution to the solution of the British crisis.

So much for the probable effect of devaluation on Britain's dollar position. If it is correct that the only significant result that can be expected is a checking of the illegal flight from the pound, then the outlook is—to put it mildly—not encouraging.

We turn next to the effect of devaluation on Britain's internal position. Here it is possible to speak with more assurance.

If there is one thing that is reasonably certain it is that Cripps was dead wrong when he said that devaluation "won't alter what is known as the internal value of the pound." In fact he belied his own statement in almost the next breath when he said that "the four-and-a-half pence loaf will have to go up to six pence." There are a number of ways, direct and indirect, in which devaluation will tend to inflate British prices. The sterling prices of all goods imported from America will tend to go up at once. These goods are partly consumers' goods and partly goods (raw materials and machinery) which enter into the production of other commodities. Hence a rise in import prices will not only directly boost the cost of living—but will also lift production costs of many industries, and these higher costs will be reflected in higher prices again. Gradually the effect will spread over most of the economy, just as the ripples from a splash spread over a whole body of water. Moreover, to the extent that devaluation succeeds in diverting resources from domestic to export production, it will tend to accentuate scarcities on the home market and in this way further raise prices.

As always happens, price inflation will reduce the real incomes of wage-earners, old-age pensioners, and others who live on salaries and fixed incomes; conversely, it will raise the real incomes of capitalists who live on profits. (In addition, we might mention that devaluation always opens up special opportunities for speculation and profiteering at the expense of the community as a whole. Professor Seymour Harris, in his elaborate study of the devaluations of the early 30's, found "ample evidence of the possibility of profiting from exchange depreciation." [*Exchange Depreciation*, 1936, p. xxii.])

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It is not hard to predict what the consequence of this shift in real income from workers to capitalists will be. Already in recent months there has been much dissatisfaction among the rank and file of the British working class; strikes and slowdowns have occurred, and more and more unions have been forced to take up the question of wage increases. Devaluation is almost certain to add fuel to the flames of rank and file discontent. On the other hand, Cripps has made it perfectly clear — and the point was stressed again by Labor Party spokesmen in the subsequent Parliamentary debate on devaluation—that the government is determined to prevent a general rise in wages. Indeed, the government *must* take this position, for a rise in wages would tend to dissipate the favorable effects of devaluation on the salability of British exports. Again, one does not need to be a prophet to foresee that the internal tensions in the labor movement will be vastly aggravated. The rank and file will come increasingly into conflict with the government, and union leaders will face ever more insistently the choice of going along with the government at the price of losing control over their own members, or of siding with their members at the price of a rupture with the government and the leadership of the Labor Party. Devaluation, in short, threatens both the stability of the Labor Government and the unity of the labor movement.

To sum up our conclusions to this point: from the point of view of the Labor Government, the gains from devaluation, aside from checking the flight from the pound, are highly problematical and even at best are likely to be small. The dangers are painfully real and may well lead to disaster.

Why, then, was devaluation decided upon? Are we to suppose that Cripps and his advisers, among whom there are very able economists, are incapable of analysing the situation and coming to sensible conclusions? Obviously not. Until recently, Cripps took a firm anti-devaluation stand, and there is every reason to assume that his reasoning was sound and entirely rational. Or are we perhaps to assume that the Labor Party is possessed by a Freudian death wish? Again, obviously not. It is best to steer clear of Freudian death wishes unless all else fails. In the meantime, there is a more convincing explanation of what at first sight seems such a strange decision. It is, very simply, that the Labor Party finally succumbed to the unflinching determination on the part of the United States ruling class—and of course of its government—to bring about the fall of the pound.

The best evidence of this determination, of course, is the furious campaign which was carried on for months to undermine confidence in sterling and to convince every one who deals in pounds that the

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rate would have to come down sooner or later. This campaign was spearheaded by the Treasury in Washington—with the personal participation of the banker from St. Louis who heads that Department—and was enthusiastically joined by various official and unofficial spokesmen who could reasonably be considered reliable interpreters of American policy. The consequence naturally was that American importers of British goods held off, hoping to profit from lower prices after devaluation, while holders of sterling made every effort to change into dollars while the going was good. Cripps, in his devaluation speech, delicately admitted that this campaign forced the hand of the British Government:

Of course, when people saw that our reserves were falling rapidly [he said], they began to wonder if their confidence in sterling was well placed. Talk had started last spring about our exchange rates in a way which led to doubt as to whether they were not too high. Once it was suspected that lowering might take place, people tried to turn pounds into dollars and gold by all sorts of devices. That is a very difficult thing to stop and there has been a good deal of it going on latterly. With low reserves we can't afford losses of that kind. We had to take steps to stop it.

It would be naive to assume that the American campaign was entirely confined to "talk." Naturally, no one on either side will admit that direct pressure was brought to bear, and certainly there is no need to assume that the American Government was so crude as to use threats and issue ultimatums. But any one who understands the extent of Britain's present economic and military dependence on the United States, and who is aware of the devious ways of diplomacy (especially in matters of international finance), will readily appreciate that there are many screws to be tightened and that the tightening process can be no less effective for being unobtrusive. Some day the facts will come out; in the meantime, it is probably safe to assume that the American campaign against the pound was something like an iceberg—one part in the open and six parts underwater.

And now we come to the last chapter of the story. Why did the American ruling class want to "get" the pound? What do they expect to gain from devaluation?

It seems pretty clear that devaluation will bring no immediate, and very probably no long-run, economic advantages to American capitalism. Looked at from the American point of view, the British move, followed as it was by the depreciation of a large proportion of the currencies of the world, amounts to a revaluation upward of the dollar. This will clearly have deflationary effects on the American economy. Foreign competition will be intensified both in the home

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market and in the markets of other countries; exports will be hit at a time when they are already declining; prices and investment will both tend to fall. Despite a great deal of wishful thinking, the recession is still with us; and the international appreciation of the value of the dollar might give the American economy a long push on the road to depression. It seems obvious enough that this cannot have been the purpose of the campaign against the pound; rather it must be a part of the price which the American ruling class is willing to pay to gain its real objective.

Nor it is possible to accept the theory, which has gained considerable currency in recent weeks, that American capitalists wanted devaluation of the pound in order to be able to buy into the British Empire at bargain-basement prices. There has been little evidence of interest on the part of American capitalists in foreign investment; Big Business, for reasons which are still far from clear, has been decidedly cool to the Point Four subsidies and guarantees which the Administration is so generously offering as a bait for foreign investors. Of course, devaluation of the pound may stimulate interest in buying into the Empire; it would not be surprising if it did. But this is an entirely different thing from saying that the desire to buy into the Empire was the motivating factor in the campaign against the pound.

Of all the possible explanations, the most plausible seems to be that the campaign against the pound was in essence a campaign against the Labor Government, and that this campaign in turn is a part of a long-range American policy of reducing the power of labor and left-wing movements all over the world. It has, of course, long been obvious that the American Government would do everything in its power to break the strength not only of Communists but also of Socialists who are willing to cooperate with Communists. Last year's Italian election provided ample proof of this, if indeed proof was needed. But many have assumed that anti-Communism alone was the aim of American policy and that certified anti-Communist Social Democrats would get at least as good treatment as reactionaries of the De Gasperi type and better treatment than fascists like Chiang Kai Shek and Tsaldaris. Since the August elections in western Germany, this assumption has clearly ceased to be tenable. The perhaps indiscreet elation of the Truman administration at the victory of the Nazi-tainted German Right over the impeccably anti-Communist Social Democrats reveals the innermost essence of American policy, just as a stroke of lightning sometimes reveals the entire contents of a darkened room. Here at last the mask was off, even if only for a moment. All the talk about democracy, freedom, orderly change, and so forth and so on was shown to be wool for the eyes of the innocent. What the Americans wanted, and got,

in Germany was reaction pure and simple—or perhaps not quite so pure.

And if in Germany, why not in Britain? In a recent number of the *New Statesman and Nation* (September 10), Alexander Werth quotes the moderately leftist French paper *Combat* as bitterly remarking, after the German elections, that “a laborite Britain is becoming an anomaly and an anachronism in Europe”—that is to say, of course, in America’s Europe. Quite so. And why should America tolerate anomalies and anachronisms in its sphere of influence? The Labor Party is after all the party of the British working class, and its very existence sets a dangerous example to the workers of all capitalist countries. Does any one imagine that the rulers of America really prefer Attlee and Bevin to Churchill and Eden? Is not the doctrine of “fair shares for all” subversive even in the hands of mild reformists? If the representatives of the working class can be completely driven out of office in France and Italy (in this connection it should be remembered that the French Socialist Party and the Saragat party in Italy are by now almost entirely petty bourgeois parties), in Germany, and most recently in Belgium, why should the Americans shrink from attempting the same feat in Britain?

To put these questions is, I think, to answer them. And if this is right, the American campaign against the pound no longer appears as a mystery or as a stupid blunder but as a thoroughly rational maneuver in the larger world war which is always raging between capitalists and workers.

What are the chances that this American maneuver will succeed? Up to now things have proceeded “according to plan:” the pound has been brought down; a crisis in the British labor movement is clearly brewing; the Labor Government has shown no tendency whatever to fight back. If present trends continue, the British international crisis will become acute some time during the next year; and the Labor Party will progressively lose its grip on the internal situation.

The Labor Party may hope to strengthen its position by calling a general election in the meantime. If the Tories should win the election, the American maneuver would be crowned with success right then and there. But even a Labor victory would not change the underlying situation; and as soon as the crisis really comes to a head it is difficult to see how the Labor Party can avoid yielding power, either directly *via* a new election or indirectly *via* the MacDonald route of a “National” Government which would almost certainly split the labor movement in two. It must be admitted that, as things now look, the chances that the American maneuver will succeed are excellent.

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But it is not inevitable that it should succeed. Britain is not condemned by fate to play the mouse to the American cat; the leadership of the Labor Party has deliberately chosen the role in the years since the war. While time is unquestionably running out, it is still not too late for the British labor movement — though probably it is too late for some of its leaders — to call a halt, to break out of the satellite's orbit, and to take the socialist road to economic reconstruction and national independence.

There is not space in this article to describe the measures which would be necessary. Some of them were briefly discussed in A British Socialist's concluding piece on the Labor Party (October *Monthly Review*, pp. 181-193). In the meantime, we see no reason to change what we said in the August issue of MR (in the Review of the Month, under the heading "The British Crisis"):

The socialist answer would involve sweeping aside the vested interests which keep the British economy inefficient and wasteful (and which incidentally still—despite all disclaimers—get paid very decently for their pains). It would involve planning the use of resources with great care and firmness, and re-directing British trade as far and as fast as possible to countries willing and able to enter into iron-clad, long-term commitments. This last point is crucial. Real planning must look ahead at least five years, and this is simply impossible for a country as heavily dependent on foreign trade as Britain unless both exports and imports can be calculated in advance with reasonable certainty.

Of course, no one with any sense would say that Britain's road to socialism would be an easy one. But that does not mean that it is impassable; and there is good reason to believe that if the Labor Party would lead the way it could count on the enthusiastic cooperation of the British people, and especially of the British workers, who on more than one occasion have astonished the world by their creative reaction to a difficult situation.

We in this country have every reason to hope with all our hearts that Britain takes the path to socialism and independence. Our rulers, through the bi-partisan foreign policy, are doing their best to spread a blight of reaction over the whole world. But they have already suffered a stunning setback in China. Britain is now in a position to deliver an even more devastating blow. It would be a blow for our liberation as well as theirs.

NOTES ON A DIVIDED GERMANY

BY MAX WERNER

Today the split in Germany is deeper than ever, and the German crisis has reached an intensity not yet grasped in the United States.

To the superficial view, the politics of Western Germany appears to have returned to the *status quo ante* Hitler. The relative strength of the various parties once again closely approximates the situation that existed after the voting of 1928, the last "normal" parliamentary election before the stormy rise of the Nazis. There is indeed an astonishing resiliency and conservatism about German politics: today after 20 years of fascism, war, defeat, and occupation, the political anatomy of Western Germany seems to have changed less than in the case of Great Britain and France. Once again, we find that Western Germany displays nearly the same 65 percent antisocialist-conservative vote as against 35 percent socialist-labor vote. The American press finds much to praise in this apparent stabilization of the Western German state.

And yet in reality this stabilization is no more than an illusion. Underneath the surface, Germany's economy and Germany's international position have undergone a profound change. Sooner or later, this underlying change is bound to make itself felt in the political sphere too. When it does, the Republic of Bonn will be seen in a very different light.

The downward trend of the Left in Western Germany is unmistakable. The combined vote of the two working-class parties — Social Democrats and Communists—is lower than it was in 1919, 1928, or even 1947. On August 14th, at the first elections for the new Federal Parliament (*Bundestag*), expellees from the East, returned prisoners of war, young voters, and previous non-voters all contributed to giving a majority to the Right. Precisely as under the Weimar Republic, the middle classes were inaccessible to the Left and voted almost solidly for the Right. Once again the economic power of the old bourgeoisie and of the managerial élite has been confirmed. The coalition between the middle classes and Big Business, a coalition which undermined the Weimar Republic, has been restored. Once again, the Social Democrats

Max Werner came to the United States during the Nazi period. In recent years he has written largely on military and diplomatic subjects; but in pre-Hitler days he was active as a writer and editor in the German Social Democratic Party, and he has continued to maintain a particularly close interest in German politics.

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and the Communists received practically nothing but the straight labor vote. The picture is certainly not new.

But on closer inspection, new features are visible. This time the elections were surrounded by an atmosphere of free-enterprise frenzy; there was not the slightest suggestion of the anti-capitalist demagoguery of the Right which the Nazis injected into their campaigns during the early 30's. Then Germany was boiling with social unrest which reached far beyond the working class proper. This time what the former Nazi leader Gregor Strasser once called the "anti-capitalist longing of 95 percent of the German people" was completely forgotten. Reacting to long years of Nazi war economy, as well as to the rigid and often chaotic controls of the post-war period, the middle classes voted vehemently for a free-enterprise system as they understand it.

On the parliamentary-political plane, the governing rightist *Bürgerblock* is quite a motley mosaic. It is heir to the pre-Hitler conservative Right, and to the moderate Center and to the bourgeois wing of Nazism. Chancellor Konrad Adenauer's Christian Democratic Union is itself a coalition—of the old Catholic Center Party (which combined elements from all classes on a confessional basis), and conservative Protestant groups—which puts greatest stress on federalist and religious issues. The Free Democratic Party, formerly the Democratic Party, already dead and buried in the last years of the Weimar Republic, has re-emerged in considerable strength as a party of militant free enterprise.

The fascist elements remain partly on the fringe of the bourgeois parliamentary parties, partly inside of them, and partly in what might be called a semi-underground. The elections showed that a strong fascist potential still exists in Germany, and when present hopes and ambitions are frustrated, as they inevitably will be, the fascist forces will be strengthened, as happened on a gigantic scale in 1928-30. However, in a country encircled by the Soviet Union, Poland, Czechoslovakia, and France—as Western Germany is—it is difficult to believe that fascism can ever come to power again. Nevertheless, the nationalist-fascist forces can and probably will undermine the fragile parliamentary system of Western Germany and throw its present unstable equilibrium completely out of kilter.

The relative strength of the two working-class parties is different from what it was during the Weimar period. The Social Democrats, with approximately 30 percent of the total vote, are stronger, and the Communists, with their 5 percent, are weaker, than at any time since 1920. In assessing these figures, it must be remembered that during the years 1930-32 the German Communist Party grew to be a real national party, commanding some 15 to 18 percent of the total vote,

and having particularly strong roots in the Ruhr industrial area. Its present decline may not be definitive, but it certainly has to be taken seriously. Many factors have been working against the Communists in recent years. German nationalism has been directed especially against the USSR. In the working class itself, fear of Russia and of Communism reflects a fear that the German standard of living may be lowered to that of eastern Europe; and the aversion to the Communist Party is strengthened by a fight for independent labor organization. Defeat and misery in Germany did not breed Communism, as many predicted they would; they were overcompensated by other consequences of the war and by the occupation.

It is not difficult to foresee what will happen under the present Adenauer Cabinet. This government stands to the right of even Brüning's *Bürgerblock* of 1930. A reactionary, socialist-proof federal bureaucracy will be installed, with a mass return of former Nazis and pro-Nazis to positions of power and influence. A suffocating atmosphere of bigotry and nationalism, accompanied by narrow and greedy economic policies, will dominate Western Germany. The present governing group stands to the right of the United States Democrats and the British Tories. It even stands to the right of Senator Taft.

The victory of the rightist forces was by no means entirely a consequence of internal German factors; in considerable measure it reflects the double pressure of the Vatican and of American foreign policy. The British Labor Government has never had a socialist policy for Germany, but the Americans have had a definitely anti-socialist policy. The German Right counted on American support and prestige, and as long as General Clay was in the country he was the real boss. The failure of the Social Democrats to secure an expected plurality over the Christian Democrats accurately measures the relative strength in Germany of the Western occupation powers.

Sooner or later, however, this outside pressure is bound to back-fire. The alliance of American and German free enterprisers promises nothing good for either of them. (It is, incidentally, one of history's bad jokes that the same German middle classes which put the Nazis in power and through their agency devastated and almost physically destroyed German capitalism, should now appear as the great champions of the free-enterprise system.) In spite of the chorus of approving voices from the United States (including that of Secretary Acheson), the German middle classes are certain to be disappointed in their demands. German capitalism can never be restored to genuine vitality: the Germans who want it are asking for what they cannot have, and the Americans who promise it are promising what they cannot deliver. The German disciples are destined to bring untold worries to the American masters.

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There is no doubt that the elections of August 14th open a new and very serious phase of the international crisis centering on Western Germany. The elections have deepened and stabilized the partition of the country. The two Germanies are now growing rapidly apart. Anti-socialist and anti-communist Western Germany cannot be welded together with Eastern Germany. (In fact, what used to be eastern Germany has been absorbed by Poland, so that in the exact geographical sense the Soviet Zone of occupation covers what has historically been *central* Germany. Nevertheless, to make the East-West contradiction more graphic it is preferable to call the Soviet Zone Eastern Germany.) Where the Soviet occupation put its foot, no grass will grow for the old Germany which has been so carefully preserved in the West. It is clear that the Soviets do not intend to make a present of Eastern Germany to Herr Adenauer. The idea of a Western German "Piedmont" which would gather around it the entire German nation, as the Kingdom of Savoy once united broken Italy, must be buried.

Tremendous difficulties exist for both Anglo-American policy in Western Germany and Soviet policy in Eastern Germany. Yet these difficulties are different in kind. A separate western German state is economically not viable at all except as a permanent pensioner of the United States. It suffers from all the economic deficiencies of Great Britain with a good many more to boot: it lacks Britain's resources, markets, shipping, and empire connections. If Britain is unable to make ends meet, it is easy to see how much more impossible it will be for a rump Western Germany.

The problems of Eastern Germany are different. Western Germany has a powerful heavy industry but is choked for lack of supplies and markets. Eastern Germany, on the other hand, has no steel but does have access to a rapidly-developing economic hinterland in central and eastern Europe. In other words: Western Germany cannot be integrated into western Europe, but Eastern Germany can be integrated into central-eastern Europe.

With the establishment of a regular, would-be national, government in the Soviet Zone, the United States and the USSR confront each other behind rival German governments. The big poker game for Germany has started in earnest. Paradoxically, the legalized partition of the country has intensified the fight for its unification. Bonn and eastern Berlin are not regional capitals, but centers competing to become the national capital. Partition has proceeded to the accompaniment of national slogans on both sides. Each of the players expects the adversary to falter. The Americans count on crisis in Eastern Germany, the Soviets on crisis in Western Germany. Who can hold out longer? Who will collapse first?

The Russians are even more convinced than the Americans that Germany cannot be partitioned permanently. They know from 200 years of Russian diplomatic experience that a separate Soviet Eastern German Republic is no solution. Hence they are biding their time, patiently waiting until the day when economic progress in eastern Europe will carry along and stabilize Eastern Germany within the framework of a tremendous European-Asian economy. Meantime, they expect a devastating economic, social, and political crisis in Western Germany.

Meanwhile, the swift transformation of the Soviet zone of occupation into the German Democratic Republic, with "statehood and sovereignty," shows that there is a grand design in Soviet policy. It was stressed in the letter of Prime Minister Stalin—certainly a political document of first importance. This policy promises to treat Germany on the basis of equality, recognizing its Great Power status. The implication is that Germany can receive a key position in Europe, second only to the Soviet Union in a European continental system. This line can appeal both to the German Left, by the radical social change, and to the German Right, by the restoration of Germany's Great Power status. A policy of this kind has, indeed, more boldness and imagination than the basically conservative Western policy in Germany. The Eastern German Democratic Republic can become a substantial element of a united Germany. But if no basis for a compromise is found, the East German state will be an effective instrument in speeding up the crisis of the West German state and in disrupting Western policy in Germany.

A crippled conservative Western Germany is a part of the overall crisis of western Europe. On the other hand, the permanent crisis of western Europe aggravates the plight of the weak and outdated West German state. There is no functioning organization of western Europe which can give refuge to the Republic of Bonn. It has no place to go. In the seesaw competition for Germany, this international weakness of Western Germany gives an additional chance to the East German state. The rest will depend on political skill—on the ability of the competing German states to provide themselves with real popular support. German unity can be achieved only on the basis of a socialist compromise, or it will not be achieved at all.

American policy in Germany is favored by the immense resources which this country has available for investment in its political undertakings. But eagerness to make the necessary investment in Western Germany will be cooled by what will almost certainly be the increasingly obvious bankruptcy of the Bonn Republic. Moreover, in spite of the pressure of the Hoover-Dulles wing of the Republican

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Party, it seems hardly likely that the United States will ever get to the point of giving priority to Western Germany. Economically Britain, and politically France, seem to have stronger claims to American favors than Western Germany. American resources are unlikely ever to be concentrated on Germany.

The foreign policy of the Western German Right, victorious on the domestic front, will further complicate the struggle for Germany. The men of Bonn have a pro-American orientation in their own fashion, and a very businesslike fashion it is. They are not interested in the ideals of Jefferson and Lincoln; they want a rich and powerful protector. They demand from the United States economic assistance and support for German revisionism, that policy which refuses to recognize the consequences of World War II. A foreign policy of slyness, intrigue, and arrogance, of stubbornness, ruthlessness, and political blindness can be expected from Bonn.

The weight of this policy should not be overestimated. The idea that German militarism and imperialism can revive is a fallacy. Imperialism means power, not merely industrial potential (which, of course, Western Germany has). The rightist political set-up in Western Germany is rotten and weak, and the country is encircled by Russians, Poles, Czechs, and French. The German Right has no freedom of action, and its majority demands not independence but protection. German nationalism can never again be a world force in its own right; it can only survive and operate by subordinating itself to the policies of a world power.

Nevertheless, the foreign policy of the German Right has a high nuisance value since it can contribute to the creation of political chaos in Europe. This policy will be neither uniform nor stable. The majority of the reactionary nationalists are pro-American and the minority anti-American, but there is nothing permanent about this relationship of forces. Today the entire German Right is anti-British, yet tomorrow if the Tories should return to power a segment would become pro-British. The Rhenish and Bavarian groups are pro-French (i.e. in favor of cooperation with the French Right), while the old nationalists of the Prussian variety are violently anti-French. The overwhelming majority of the German Right is today frantically anti-Russian; but if American economic help should fail, or if Western Germany should be shaken by a political crisis, it might even happen that influential forces would begin to seek salvation in a bargain with the Soviet Union. A whole network of intermittent intrigues will be cast in all directions, with the main effort at seduction of course being concentrated on Washington.

The Pandora Box of German counter-revolution and revisionism

can be closed only by the organized labor movement, the only solid counter-weight to the new streamlined managerial capitalism, neo-fascism, and old, rotten, middle class reaction in Western Germany. At present, the split inside German labor reflects exactly the split in the country: the Social Democrats have the factual monopoly of labor's representation in the West; the Communists have the formal monopoly in the East. But the real unification of Germany can never be accomplished unless the two labor parties are able to coordinate their policies and their actions.

The historic curse of Germany is that at the end of World War II, it was cheated of its democratic revolution—for the third time in a century (1848, 1919, and 1945). The German labor movement has never had the Spanish or French experience of Popular Fronts, the Italian experience of Socialist-Communist collaboration, the British experience of a Labor victory and a Labor Government. Nevertheless, the national future of Germany depends entirely on the possibility of a new policy of Labor. Only a socialist solution can overcome the country's deadly crisis. But a socialist solution for Germany means much more than a mere formula of socialization—it means the creation of a new center of power on a national scale. This would require a political strategy coordinating German labor in action and fighting the isolation of socialist labor by a policy which could win a part of the dispossessed middle classes.

The German Social Democrats cannot be compared to the French Socialists or the Saragat Socialists in Italy. Social Democracy in Germany is a mass party which represents the overwhelming majority of workers in Western Germany, and moreover it is not a government party but an opposition party. The political line of Kurt Schumacher has nipped in the bud the possibility of a conservative-socialist coalition on French or Italian lines and has brought the party into a position of sharp struggle with the Adenauer government. The situation is very dangerous, very difficult, but not entirely hopeless. The Communists voted for Schumacher for the office of President of the Federal Republic. It is still possible that hard facts may compel the Communists to recognize the power of the Social Democrats in Western Germany and at the same time compel the Social Democrats to understand that a new European situation has been created in which Western Germany is permanently encircled by the Soviet bloc and France.

WHY I BELIEVE IN SOCIALISM

BY HENRY PRATT FAIRCHILD

My father was a professor all his life in a small middle-western college which he practically helped found. A good deal of the time he was also treasurer—and a very good treasurer, by the way. He never lost a dollar of the college's money, interest or principal. With a limited faculty, he taught sooner or later almost everything in the curriculum, literally all the way from civil engineering to Hebrew. In his later years he devoted himself to economics, or "political economy," as it was called in those days.

It was virtually inevitable that he should belong to the orthodox Classical School. "*Laissez-faire*" was a household phrase in my young ears. I had only the foggiest notion what it meant. It sounded to me like "lace affair," and I had an ill-defined idea that it was some kind of lingerie. Of course my father had no use for socialism, but he believed in learning about things at first hand so he subscribed to several Socialist publications, including *Appeal to Reason*, which actually appealed to anything but reason. My mother used to be ashamed to go down to the R.F.D. box on days when she knew its glaring red headlines would be awaiting her.

So my eventual leaning toward socialism can hardly be attributed to either heredity or early environment. As a matter of fact it was the slow outgrowth of an essentially intellectual process.

I had always had a spontaneous interest in matters of immigration and population; and when, after considering a variety of life careers, I finally decided to become a teacher, I went to Yale University with the specific intent of gaining the most thorough knowledge possible of immigration. I quickly realized that in order to do this I must study sociology, and that is how I became a sociologist. A sociologist, as is well known, is "a person who knows less and less about more and more," and I very soon found myself delving into various economic relationships. Anyway, I minored in economics. And one thing that I became deeply concerned about was the standard of living, what it actually is, how it is determined and measured, what can be done about it, etc. This in turn led, by gradual stages, to an attempt to study thoroughly and really understand what is known as the capitalist system.

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And it did not take me long to realize that the capitalist system is inherently antipathetic to the building of a high standard of living for the mass of the people.

I came to see that the much glorified principle of capitalism, competition, inevitably leads to monopoly and that monopoly aims at restriction. Furthermore, looking at capitalism as a "private-price-and-profit-system," it became clear that capitalism is of necessity a restrictive system. For the essence of price is scarcity. Where there is complete abundance there can be no price, unless there is also complete monopoly. So when the concept, and the phrase, "economy of abundance" came into vogue I recognized it as both a desirable goal and a goal which could not possibly be achieved under a system of "free enterprise."

In keeping with the familiar definition of socialism, I recognized that the key to the problem lay in the institution of ownership, and as I pressed my studies I was amazed to discover how little attention was paid to this crucial factor in any of the theoretical treatises. Even the word itself did not appear in the indexes of more than one or two of the standard textbooks on economics. The final step in this logical sequence was to recognize that true profits are inseparably connected with ownership—they are, indeed, the rewards of ownership, and nothing else.

Having reached this stage in my scientific thinking, I had what can hardly be called anything else than a "revelation." It suddenly dawned on me that in a thoroughly capitalized society private monetary profits, on a society-wide scale, are a physical and mathematic impossibility. The whole economic structure of western society is based on a chimera and an illusion. For purposes of popular elucidation, I found it useful to epitomize the situation in the ultra-simple illustration: "You can't pay a man seven dollars to make a pair of shoes for you and then expect him to turn around and buy the shoes back from you for ten dollars. Where's the money coming from?"

I developed this idea in a magazine article and then in a book, *Profits or Prosperity?* The proposition was so revolutionary that it scared me. I used to wake up nights in a cold sweat, thinking, "There must be something wrong with it. Otherwise, why has nobody ever thought of it before?" But it has never been refuted. The small group of emancipated economists recognize it and reason accordingly; the conventional economists ignore it.

It hardly need be said that there are many moral and ethical arguments for the proposition that cooperation is a better basic principle for organizing social life than competition, and there are innumerable

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concrete evidences of the cruelties, injustices, and contradictions that are the inescapable concomitants of a "free enterprise" system. But to me the final and irrefutable argument against a system of pure capitalism is simply that *it will not work*.

I may say that, as a would-be scientist, it is comforting to find that my theoretical analyses have been emphatically confirmed by a recent two-months visit to the countries of eastern Europe, where socialism is experiencing a thrilling practical demonstration.

MONOPOLY

BY LEO HUBERMAN

One of the greatest hoaxes ever perpetrated on the American people is the ever-repeated assertion that our economic system is one of "free private enterprise." The capitalists and their propagandists on the air and in the press want us to believe that ours is a competitive, free, individualistic economy.

That is not true. Only *part* of our economic system is competitive, free, and individualistic. The remainder—and by far the most important part—is the exact opposite; monopolized, controlled, and collectivistic. Next time you hear talk about preserving our "traditional American system of free competitive enterprise," be on your guard. You're being sold a bill of goods.

The truth is that "free competitive enterprise" *was* the traditional American system eighty years ago. After that it began to change. Until the 1870's businessmen competed with each other. After the 1870's businessmen combined.

It was quite natural that business should change from competition to combination. It was competition itself which was the driving force behind combination, mergers, consolidation, trusts, monopoly.

The virtues which so many economists attribute to competition do indeed exist—when looked at from the point of view of the consumer. But capitalists don't run their business from that point of view. Of course they say that their interest and that of the consumer are the same. But they seldom act as though that were true.

The fourth of a series of articles designed to present as simply and clearly as possible the fundamental principles of socialism.

Competition, according to theory, was a fine thing. But capitalists found that practice didn't jibe with theory. They found that competition was wasteful, often ruinous. They found that competition lessened profits while combination increased profits. They were interested in profits, so why compete? It was better to combine.

And combine they did—in oil, sugar, whiskey, iron, steel, coal, and a host of other commodities. By 1888 trusts and monopolies had such a stranglehold on American economic life that President Grover Cleveland felt it necessary to sound a warning in his annual message to Congress:

As we view the achievements of aggregated capital, we discover the existence of trusts, combinations, and monopolies, while the citizen is struggling far in the rear or is trampled to death beneath an iron heel. Corporations, which should be carefully restrained creatures of the law and the servants of the people, are fast becoming the people's masters.

Congress heeded the warning of the President. It listened to the demands by farmers, small businessmen, and consumers that something be done about the monopolists' practice of curtailing production and raising prices. On July 2, 1890, the Sherman Anti-Trust Act, "An Act to protect trade and commerce against unlawful restraints and monopolies" became a law.

The interesting thing about the anti-trust law is the fact that it was *after* it was passed that some of the biggest monopolies, including many of the great corporations of today, were established. It wasn't only that neither the Congress nor the courts in the years that followed were genuinely interested in enforcement of the law. Even if they had given more than lip service to smashing monopolies, they would not have succeeded. The transformation of competition into monopoly as the result of the concentration of production was inevitable in that period of capitalist development.

The gradual replacement of competition by monopoly was not an encroachment from the outside, but a development of competition itself. Monopoly arose from within competition—an illustration of the truth that each system or event, or whatever, carries *within itself* the seeds of its own transformation. Monopoly wasn't an outside invader that charged in and conquered competition. It was the natural outgrowth of competition itself.

One way of eliminating competition was the quite simple one of either secret or formal agreement by businessmen that they would stop competing. Another, more common method, was to bring competitors together under common ownership and control, that is, to merge, consolidate, or combine into a giant trust or corporation.

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This second method required money—lots of it. The urgent need for money put the industrial capitalist at the mercy of the finance capitalist. Industrial United States was controlled by its system of credit, and that system was concentrated in the hands of a few men—the finance capitalists, the bankers. For that reason, the bankers were able to dictate their own terms to the industrialists. So there came a moment in the life of practically every giant corporation when the captains of industry had to share control or surrender it completely to the generals of finance.

Through the marriage of industrial and finance capital, some corporations were able to expand to so great an extent that in some industries today a handful of firms, literally, produce more than half the total output or nearly all of it. In these industries, certainly, the "traditional American system of free competitive enterprise" no longer exists. In its place there is concentration of economic power in a few hands—monopoly.

A few specific examples from the 1946 report of the House of Representatives' Committee on Small Business, entitled *United States Versus Economic Concentration and Monopoly*, prove the point:

General Motors, Chrysler, and Ford together produce nine out of every ten cars made in the United States. (p. 104.)

In 1934 the Big Four tobacco companies—American Tobacco Company, R. J. Reynolds, Liggett & Meyers, and P. Lorillard—"produced 84 percent of the cigarettes, 74 percent of the smoking tobacco, and 70 percent of the chewing tobacco." (p. 105.)

The Big Four rubber companies—Goodyear, Firestone, U. S. Rubber, and Goodrich—account for "nearly 93 percent of the total net sales of the rubber industry." (p. 105.)

General Electric and Westinghouse, in 1942, had a virtual monopoly over the production and distribution of incandescent lamps. With Hygrade Sylvania, these companies "produce and sell virtually all the fluorescent lamps in the country." (p. 108.)

In 1941, "the four largest producers—Frigidaire, General Electric, Nash-Kelvinator, and Westinghouse—accounted for 66 percent of the total production" of mechanical refrigerators. (p. 108.)

"The top three companies alone—United States Steel, Bethlehem, and Republic—accounted for nearly 60 percent of the nation's total steel ingot capacity." (p. 111.)

Before the war, the three largest companies in the soap industry—Procter & Gamble, Lever Bros., and Colgate-Palmolive-Peet Co., con-

trolled 80 percent of the business. Another 10 percent was secured by three other companies. The remaining 10 percent was distributed among approximately 1200 soap producers. (p. 119.)

Two companies—Libby-Owens-Ford and the Pittsburgh Plate Glass Co.—together make 95 percent of all the plate glass in the country. (p. 123.)

The United States Shoe Machinery Co. controls more than 95 percent of the entire shoe-machinery business in the United States. (p. 132.)

This is just a sample list. It is by no means complete. In many other areas there is equally great economic concentration.

It is not difficult to see that with such extensive domination, the monopoly capitalists are in a position to fix prices. And they do. They fix them at that point where they can make the highest profits. They fix them by agreement among themselves; or by the most powerful corporation announcing the price and the rest of the industry playing the game of "follow the leader;" or, as frequently happens, they control basic patents and give licenses to produce only to those who agree to stay in line.

One of the best illustrations of this last technique for keeping prices high up where the monopoly wants them is this proud boast by one of the top companies in the eyeglass industry: "The secret of our perpetual success is that we do not license anyone who has the slightest idea of cutting prices on any kind of merchandise." (Darel McConkey, *Out of Your Pocket*, p. 39.)

Now you know why you paid so much for your eyeglasses.

Mr. H. D. Randall, President of the Riverside Metal Co., makers of safety tools, was a witness before the Temporary National Economic Committee of the 76th Congress, in 1939. His testimony. (TNEC Hearings, Part V pp. 2085, 2086), was a striking example of the way the game of "follow the leader" is played:

Mr. Cox. Mr. Randall, would it be correct to say that there is a well-crystallized practice of price leadership in the industry in which you are engaged?

Mr. Randall. I would say so.

Mr. Cox. And what company is the price leader?

Mr. Randall. I would say that the American Brass Co. holds that position.

Mr. Cox. And your company follows the prices which are announced by The American Brass?

Mr. Randall. That is correct.

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Mr. Cox. So that when they reduce the price, you have to reduce it too. Is that correct?

Mr. Randall. Well, we don't have to, but we do.

Mr. Cox. And when they raise the price, you raise the price?"

Mr. Randall. That is correct.

The practice of abolishing competition in respect to price has reached over into the distribution field too. That's the complaint of the head of R. H. Macy & Co., according to Sylvia F. Porter, financial editor of the *New York Post*. In her column of October 27, 1947, Miss Porter writes:

It's really quite informal. A manufacturer simply refuses to sell his products to a retailer who won't observe a 'suggested price.' Nothing illegal about it, for it's not covered by law. Nothing obvious about it, for it's just an arrangement between manufacturer and retailer. But according to Jack I. Straus, head of R. H. Macy and Co., these price-maintenance-deals are major obstacles to the lowering of prices, out-and-out evils. . . .

Under 'price maintenance,' a manufacturer . . . just doesn't sell to a customer who won't abide by the price level set. And when he "fixes or maintains" a price, he puts it high enough to satisfy the highest-cost distributor. And so he eliminates the chance that we might benefit from the result of mass distribution.

Having explained the practice, Miss Porter then goes on to point the moral: "What is significant is that Straus has emphasized in unmistakable terms that our free enterprise system is not as competitive as so many industrialists claim."

In competitive industry, when the demand for goods falls, prices fall too, in an effort to maintain production; in monopoly industry, when the demand for goods falls, prices do not fall, but production does.

Thus, in the depression following the crash in 1929, agricultural commodities (competitive industry) dropped 63 percent in price and only 6 percent in production; on the other hand, agricultural implements (monopoly industry) dropped only 6 percent in price and 80 percent in production.

If ours was indeed a system of free competition, then what happened to the farmers' crops would have happened to agricultural implements as well. But ours is only partly a competitive system, and in their sector, the monopolists didn't allow that to happen. The farmers' crops were sold in a competitive market where prices are flexible. Monopoly's product was sold in a controlled market where prices are rigid.

Instead of letting prices drop, monopoly industry lets production drop. That this policy means unemployment for workers is not the concern of the monopolist; his concern, and necessarily so in a capitalist economy, is for profits.

In addition to having to pay higher prices because of monopoly control, consumers are hit in other ways. There is, for example, the monopoly practice of keeping new inventions off the market as long as possible (e.g. fluorescent lighting and the "everlasting match"). And there is also the practice of actually *reducing* the quality of goods—so they won't last so long so more will have to be bought so profits will rise. A 1932 memo from the files of the General Electric Co. illustrates the point:

Two or three years ago we proposed a reduction in the life of flashlight lamps from the old basis on which one lamp was supposed to outlast three batteries, to a point where the life of the lamp and the life of the battery under service conditions would be approximately equal. Some time ago, the battery manufacturers went part-way with us on this and accepted lamps of two-battery lives instead of three. This has worked out very satisfactorily.

We have been continuing our studies and efforts to bring about the use of one-battery-life lamps. . . . If this were done, we estimate it would result in increasing flashlight business approximately 69 per cent. We can see no logical reason either from our standpoint or that of the battery manufacturers why such a change should not be made at this time. (Darel McConkey, *Out of Your Pocket*, p. 30.)

Monopoly gives to a small group of business men the power to make decisions affecting the national interest. And in their desire for profits, it is almost inevitable that their decisions will be anti-social. A letter from the Secretary of Agriculture to the Senate containing a report on "Industrial Prices and Their Relative Inflexibility" makes the same point:

When the business man has the power to affect industrial policy, he almost necessarily makes wrong industrial decisions. The very position, experience and training of the business man which lead him to make the correct decisions on business policy tend to force him to make the wrong decisions on industrial policy in spite of the utmost public spirit which he, as an individual, may seek to exercise. The fact that his decisions are wrong from the point of view of the public interest is no necessary reflection on either his character or his intelligence, but arises from the nature of the situation within which he operates and the functions which he performs. (Senate Document No. 13, 74th Congress, 1st Session, 1935, p. 11.)

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The agitation against monopoly power and profits which began in the last quarter of the 19th century continued into the 20th century. But though much was said about the "growing evil," little was done about it. Neither the Federal Trade Commission nor the anti-trust division of the Department of Justice, even when they had the will to do something, were given the funds or the staff to do it with.

As a matter of fact, little could be done about it. When the Standard Oil Company was "dissolved" in 1911, Mr. J. P. Morgan is reported to have made this appropriate comment: "No law can make a man compete with himself." Subsequent events proved Mr. Morgan right. By 1935:

One-tenth of one percent of all the corporations in the United States owned 52 percent of the assets of all of them.

One-tenth of one percent of all the corporations earned 50 percent of the net income of all of them.

Less than 4 percent of all the manufacturing corporations earned 84 percent of the net profit of all of them. (TNEC Hearings part I, p. 185.)

"A more nearly perfect mechanism for making the poor poorer and the rich richer could scarcely be devised."

That's what the TNEC report says about monopoly. (Monograph No. 21, p. 18.)

It gives as evidence the effect of monopoly on workers, producers of materials, consumers, and stockholders.

The workers are made poorer by "the monopolist's failure to pay wages equal to their productivity."

The producers of materials (e.g. farmers) are made poorer by "the low prices that the monopolist sometimes pays."

The consumers are made poorer by "the high prices that the monopolist charges."

The stockholders, on the other hand, are made richer by "the unnecessarily high profits that the monopolist thus obtains."

Whenever the charge is made that there is a dangerous concentration of power and wealth in the hands of a few, the apologists for Big Business deny that the picture is as black as it is painted. They argue that there is a wide distribution of stock ownership, that not Mr. Big alone, but Tom, Dick, and Harry, and millions of other little fellows own stock in the giant monopoly corporations. It's a plausible argument and it fools a great many people.

The fact is, however, that it is quite misleading. For a long time we had to make wild guesses about how many of the 140,000,000 people in the United States owned shares of stock. Estimates ranged from as low as 4,000,000 to as high as 20,000,000. Now we don't need to guess any longer. We know. The Temporary National Economic Committee, whose job it was to investigate the concentration of economic power, estimates that there are *between eight and nine million persons owning stocks*, or roughly *one out of every fifteen* inhabitants in the country. (Monograph No. 29, p. 10.)

But even this 1 out of 15 figure is deceptive since it gives no clue to the size of the blocks of stock owned by some individuals. Of far greater importance than the number of stockholders is the amount of stock each one holds. Perhaps the most frequently cited example of a company which is "owned by the many not the few" is the American Telephone and Telegraph Co. As recently as September 29, 1949, it was cited in the *New York Times*, in No. 12 of a series of cleverly deceptive ads by the Standard Steel Spring Company, designed to prove that the "American Business System" is tops: "The American Telephone and Telegraph Company is owned by 800,000 men and women. More stockholders than employees. They own an average of 30 shares apiece. Working people mostly with average family incomes . . ."

That's the familiar refrain. "An average of 30 shares apiece." So fair and democratic. But what is the real picture of stock ownership in AT&T? Here is the story, according to the TNEC report of 10 years ago:

The fact is pointed out that in the American Telephone and Telegraph Co. there are more than 600,000 stockholders. These are represented as, for the most part, elderly women with beatific faces knitting sweaters for their grandchildren, existing on a small dividend from the company. . . . But such statements assume that stock ownership is distributed equally. Actually, 382,000 or more than 60 percent of the stockholders, own less than 10 percent of the stock, while a mere 5 percent of the stockholders, 33,498 to be exact, own more than half the company. It is they who receive more than half the benefits of the policy of maintaining dividends and interest. It is to them that income is being diverted. It is they who are piling up idle money in the banks. (Monograph No. 7, p. 90.)

This specific example of one of the companies with the widest distribution of stock ownership proves that the argument that "the people" own American industry is phony. The number of stockholders in any company may indeed be large. But that is not significant. What is significant is *how many own how much*. What is significant is how

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the profits are divided among the shareholders. And the moment you get that figure, you find that "the people" as a body own a microscopic share of American industry, while a handful of Big Boys own most of it and reap the colossal profits.

The most impressive and most easily understood figures in this connection were those given to Congress in 1938 by President Roosevelt:

The year 1929 was a banner year for distribution of stock ownership.

But in that year three-tenths of one percent of our population received 78 percent of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them. (TNEC Hearings, Part I, p. 185.)

Is there any meaning in all the talk about widespread ownership of stock if 299 people get 22¢ out of every dividend dollar while one person gets 78¢? Obviously not.

The true picture was presented to Congress in 1941 by Senator O'Mahoney in the Final Report and Recommendations of the Temporary National Economic Committee, of which he was chairman: "We know that most of the wealth and income of the country is owned by a few large corporations, that these corporations in turn are owned by an infinitesimally small number of people and that the profits from the operation of these corporations go to a very small group." (p. 9.)

What should be done about the problem of monopoly? Are bigger and better anti-trust laws the answer? Should the giant corporations be broken up into many little corporations? That's the traditional American approach to the problem—and it's wrong.

It's wrong because it misses the main point. The root of the evil is not bigness; under modern conditions bigness is necessary and desirable. The root is private ownership, which means that the enormous power and profits of monopoly belong to the few. What's wrong with monopolies is simple—the people do not own them.

The old prescription for the disease—to allow monopolies to be privately owned and to attempt to break them up—is completely ineffective and useless.

The socialist prescription—not to smash them but to have the people own them—that is the only sensible remedy.

continued from inside front cover

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We have received a number of complaints of badly printed copies of the magazine—some so botched up as to be impossible to read. We apologize and assure our readers that we shall do our best to see that these occasionally unavoidable accidents (they happen even in the case of the most expensively printed magazines) are kept down to a minimum. We will, of course, be glad to replace any defective copies. Just write and let us know.

Recently we received a subscription, accompanied by excerpts from a letter from John Jenkins, a young American who has been studying at a university in Prague during the past year. We are proud of Mr. Jenkins' recommendation:

There is another periodical you should look into, *Monthly Review*. I just got it, first number came out in May. It had an article by Einstein "Why Socialism?" Excellent. The language is superb, the ideas and thoughts first-rate. The most outstanding features of the magazine are clarity and simplicity of style and no mincing of words—they say what they want, don't insinuate, hint, hedge about, but go directly to the root. It is by far the best thing I have seen in the states . . . With a review of this type, it will not be long before a whole new generation of socialists is educated. You will be thrilled.

Exaggerated, no doubt. But anyway, that's the kind of magazine we are trying to put out, and we're glad to hear from every reader who thinks we're succeeding. Of one thing we are sure, however: there won't be any new generations of socialists educated by *Monthly Review* unless it reaches many, many more people than is now the case. And for that, we rely on you. Please send in those subscriptions—*right away*.

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